City Limits

The locality pay formula isn't closing the salary gap, critics say.

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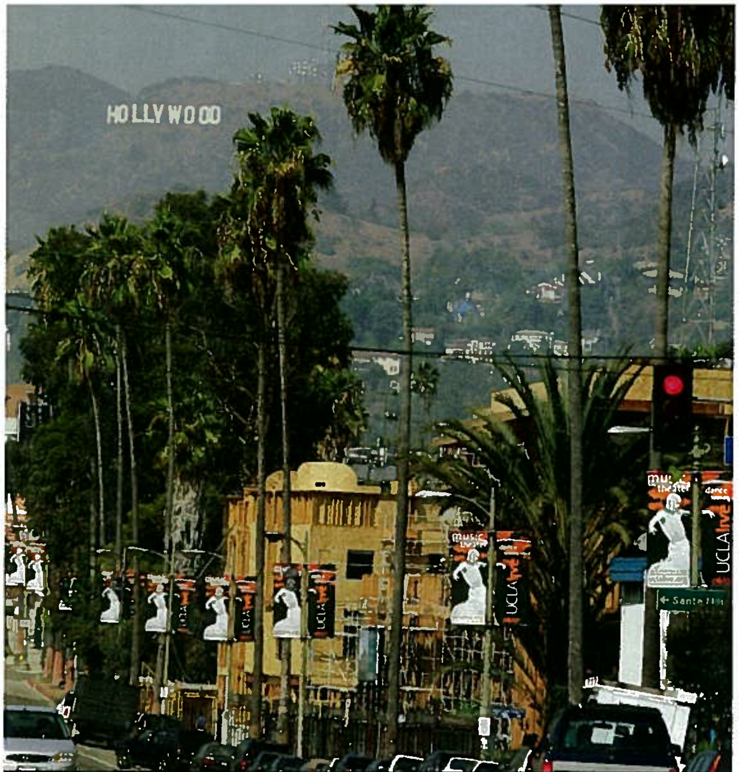

LOCATION, LOCATION Wages can vary across counties in areas like Los Angeles, complicating locality pay calculations.

It's been 18 years since Congress passed the Federal Employees Pay Comparability Act, which was designed to narrow, and ultimately eliminate, the pay gap between the government and the private sector. Today, some federal employee groups argue that the law hasn't been enforced properly. One of the people who helped craft it says the government no longer has the right data to set salaries. And some federal executives say the methodology for making pay comparisons was imperfect in the first place. But they all agree that no matter the cause, the pay gap is widening at a time when the federal government needs to be more competitive.

"I'm not sure the government is going to be able to get away with paying salaries that are so far below the market when they're trying to recruit the next generation," Jacqueline Simon, director of public policy for the American Federation of Government Employees, said at a June hearing of the House Oversight and Government Reform Federal Workforce Subcommittee.

The law was intended to reach 95 percent pay comparability by 2002 by providing a 20 percent locality pay increase for federal employees in 1994 and 10 percent increases in each subsequent year. But the president was given the authority to put an alternative pay plan in place during times of national emergency or economic crisis. And that's what has happened every year since the law was passed, through good economic times and bad.

Those alternative pay plans generally have included locality increases much smaller than 10 percent, or the raises that would have resulted after 2002 if the law's formula was followed. In 2002, the average pay gap was 19 percent. It reached a low of 13.37 percent in 2005, but rose to 18.41 percent in 2006, and to 22.97 percent in 2007.

Both AFGE and the National Treasury Employees Union would like to return to the original intent of FEPCA. They acknowledge that a complete and immediate correction isn't possible, and not just because it would require a significant increase in the budget for staffing.

"The public would not allow a 17 percent pay raise to federal employees [in a single year]," NTEU President Colleen Kelley said at the June hearing.

In addition, Howard Risher, a compensation specialist who was the managing consultant to the Office of Personnel Management when FEPCA was under development, says the Bureau of Labor Statistics has changed its approach to collecting wage data and it's now harder to determine how salaries in the private sector compare to federal wages.

Risher said the original determination that federal employees were underpaid was made using a large database of private sector salary survey results of so-called benchmark jobs, such as senior accountant or administrative assistant.

The plan was to use the results of BLS' comprehensive study, the "National Survey of Professional Administrative, Technical and Clerical Pay," conducted each year in major cities. For smaller cities, BLS would do the survey every three years, and use a measurement called the Employment Cost Index in intervening years. But the agency stopped conducting its national survey shortly after FEPCA was

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passed, forcing OPM to rely entirely on the ECI instead of on more precise salary data.

"ECI is probably a more accurate measure of how salaries are going up in the macro sense, but they've lost all track of how their jobs compare to jobs in the private sector," Risher says. "The best way [to address cost-of-living pressures] is to make those salaries competitive, and there is no data for that at this point."

But even reliable national salary data might not be enough to make sure federal employees are paid comparably to their peers in other industries and can afford their living expenses, Risher says. Location is what's really important in determining fluctuations in pay within benchmark occupations, he notes. "Suburban employers typically pay slightly less than downtown employers would pay. There are some differences like that. The farther you move away from the downtown area, pay raises begin to go down. You couldn't collect data like that—it would be a monstrous task," Risher says.

In other words, federal employees who make as much as their peers in other industries could still feel like they're falling behind their neighbors if they live in higher cost areas than where they work. Those cost-of-living concerns motivate advocates who say government should be less concerned about keeping up with private industry and more concerned with making sure it pays wages that will allow federal employees to live securely.

Kathrene Hansen, executive director of the Los Angeles Federal Executive Board, says wages vary dramatically across counties in the Los Angeles area. Some of the counties with the highest wages are excluded from locality pay calculations, she says, while others with lower wages are factored in, dragging down the salaries locality pay is based on. Hansen argues that setting salaries based on cost of living would be more realistic, especially in places like California, where housing prices are extremely high but some wages are depressed by factors such as illegal immigration.

"You get people who say I want to get into the federal system, and they start trying to transfer over immediately to a lower-cost city," Hansen said at the June hearing.

Hansen understands that agencies that have trouble recruiting and retaining employees because they offer lower salaries have less resiliency when disasters trigger a need for services or prevent employees from doing their jobs. During the October 2007 wildfires in California, some federal employees had a hard time getting to work at already understaffed locations like air traffic control facilities, straining delivery of important services.

Simon and Kelley said at the hearing that they sympathized with federal employees facing high housing prices, adding that for some areas, housing subsidies similar to those given to military families, might be an appropriate form of compensation.

The Los Angeles area has long been a flash point in debates over federal salaries. The Federal Executive Boards in that city and New York published a 1988 report about their recruitment and retention challenges, which became part of the push for FEPCA.

But for some advocates in other locations, the situation in Los Angeles seems enviable. Senators from Alaska and Hawaii are pushing legislation that would switch federal employees in those states and Puerto Rico from cost-of-living allowance rates to locality payments. Their reasoning? COLA payments are not taxed as income, but they also do not count toward retirement benefits and are not eligible for Thrift Savings Plan matching funds. Union leaders tell stories of Hawaiian couples going to work in Los Angeles in order to boost their retirement savings.

No consensus solution has emerged from these debates, but it's clear that whether in Los Angeles, Washington or Hawaii, the grass is always greener across state lines—or even the Pacific Ocean.